



December 22, 2010

MEMORANDUM FOR: Mary M. Glackin, Deputy Under Secretary for Operations,
National Oceanic and Atmospheric Administration

FROM: Ann C. Eilers, Principal Assistant Inspector General for
Audit and Evaluation

SUBJECT: *Survey of NOAA's System and Processes for Tracking Oil Spill
Costs* (Final Memorandum No. OIG-11-016-M)

After the April 20, 2010, explosion of the Deepwater Horizon offshore drilling unit caused a massive oil spill in the Gulf of Mexico, the Department of Commerce's Office of Inspector General (OIG) initiated an audit survey to assess NOAA's system and processes for tracking costs associated with its response and damage assessment efforts. This memorandum is to advise you of our survey observations.

We noted that while NOAA has developed processes to track the costs associated with its oil spill activities, improvements are needed to ensure that all costs¹ charged to oil spill projects—whether funded by appropriations or reimbursements—are properly recorded in the financial system and supported by sufficient, appropriate documentation; and that they reflect the full cost of oil spill response, damage assessment, and restoration activities. Failure to implement improvements could result in costs not being fully reimbursed. Due to the timing of our survey, which focused on NOAA's early response and damage assessment activities, we were not able to assess the processes for collecting, recording, and monitoring reimbursements of NOAA's oil spill costs.

We provided your office with a draft of our observations on December 7, 2010, and made minor modifications and technical edits to this final memorandum based on the response we received. Your office's comments emphasize the agency's unprecedented mobilization as a result of this catastrophic event; further, NOAA maintains that its participation became more routine, and its documentation of spill-related activities more consistent, as the response effort in the Gulf stabilized. In addition, NOAA communicated that they successfully received reimbursement for over \$4 million in spill related costs on September 21, 2010. Finally, NOAA acknowledges the value of reviews such as this audit survey. As it evaluates its own execution of response activities, the agency will closely examine the observations we provide in the following sections.

¹ In this context, *cost* refers to the monetary value of using a government resource.

Background

As you know, NOAA is the government's leading scientific resource for oil spills. Since the Deepwater Horizon explosion, NOAA has provided coordinated scientific, weather, and biological services to federal, state, and local organizations. All of NOAA's offices—both in the Gulf of Mexico region and in remote locations—play a vital role in the ongoing oil spill response and environmental assessment activities. These activities are funded by three main sources:

- The Pollution Removal Funding Authorization (PRFA) permits reimbursements to NOAA for certain oil spill response activities through the Oil Spill Liability Trust Fund, which is managed by the U.S. Coast Guard. These activities must be approved in advance by the U.S. Coast Guard Federal On-Scene Coordinator.
- NOAA may also receive reimbursement from the party (or parties) responsible for the oil spill for natural resource damage assessment (NRDA) activities, which include pre-assessment, restoration planning, and restoration implementation. Costs associated with these activities are reviewed by an independent accounting firm and by the NOAA General Counsel for Natural Resources.
- Any non-reimbursable costs incurred to support overall oil spill response efforts are funded via appropriations. Obligations incurred in fiscal year 2010 were funded by NOAA's annual appropriation and the Supplemental Appropriations Act of 2010.

A description of each type of funding source is included as an attachment to this memorandum. As of September 30, 2010, NOAA had incurred \$131.4 million in obligations: \$93.5 million in reimbursable activities and \$37.9 million in appropriated activities. We reviewed a fraction of these transactions (through June), as described in the following section.

Cost-Related Observations

NOAA has established a project code structure within its core financial system, Commerce Business Systems (CBS), for recording and tracking costs associated with NOAA's spill-related activities; NOAA offices also have a process for recording such activities. We obtained a listing of spill-related financial transactions recorded in CBS as of June 29, 2010, totaling \$16.7 million, and examined the supporting documentation for \$9.0 million.

During our review of financial transactions, we identified several potential cost-related issues that, if not addressed by NOAA management, may increase the risk that NOAA's efforts in the Gulf will not be appropriately reimbursed:

1. ***Unapproved Compensatory Time and Overtime.*** During our period of review, approximately 600 NOAA employees incurred \$3.1 million in labor costs, of which \$880,000 (28 percent) was attributable to overtime and compensatory time. Of the 41 employees examined who were working on oil spill-related activities, 31 recorded overtime and compensatory time without receiving documented approval. For example, during the three biweekly time periods we examined, one employee incurred a total of \$20,172 in labor-hour costs, of which \$10,496 (52 percent) was unapproved overtime and compensatory time.

2. **Manual Transfers of Costs to Oil Spill Projects.** Our interviews with NOAA officials indicate that some oil spill costs that had initially been charged to appropriated funds and commingled with other costs may be eligible for reimbursement. Additionally, during the three pay periods we examined in fiscal year 2010, unionized National Weather Service employees engaged in oil spill response activities were not permitted by the union to charge their time to oil spill project codes. In both instances, these costs must now be manually identified, documented, and transferred to oil spill project codes, a time-consuming and potentially error-prone process.
3. **Application of Overhead Costs.** NOAA offices charge overhead costs to oil spill projects based on pre-established rates in CBS. Although a verification of the overhead rate was beyond the scope of our review, we asked NOAA staff responsible for applying the overhead costs to reimbursable projects if they have an established method for verifying that the rate applied is accurate and reasonable. We would expect NOAA staff to develop a mechanism for evaluating the rate, such as historical trend analysis, in order to ensure that rates are accurately calculated and consistently applied. However, due to the scope of our review, we were unable to conclude whether a method for evaluating the reasonableness of the rate has been developed.
4. **Improper Travel Costs.** During our review of 28 travel-related expenses, we found one instance in which a non-spill-related travel expense was incorrectly charged to the NRDA project.

Labor, overhead, and other costs must be carefully tracked to ensure that they are accurately and properly recorded, reported, and paid. Failure to monitor and approve overtime and compensatory time may result in unworked labor hours being improperly billed to and reimbursed by third parties. Finally, inadequately supported costs may call into question all costs submitted for reimbursement to third parties.

Observations on Documenting and Tracking Personnel Activities

In addition to these cost-related concerns, we identified the following documentation and personnel-activity tracking issues:

1. **Vague Descriptions on Activity Logs and Hours.** Employees working on certain oil spill projects are required to record a description of their work and hours on activity logs. However, our review of the activity logs for 17 employees found that 9 recorded vague descriptions, such as “NRDA Planning,” without providing details as to specific activities. By contrast, another employee’s activity logs did provide sufficiently detailed information, such as “Development of NRDA sea turtle subgroup; conference call to outline NRDA data collection plan for sea turtles; initial coordination with chemistry subgroup on analytical methods.”
2. **Activity Log Data Not Reconciling with Timekeeping Records.** Ten of the 17 employees whose activity logs we examined had recorded hours that did not agree with the timekeeping records for the same timeframe and project code. During the three biweekly time periods we examined, the discrepancies between activity log totals and NOAA’s automated timekeeping system ranged from 1 to 28 hours.

3. ***Insufficient Supporting Documentation for Payroll, Travel, and Contracts.*** During our examination of labor cost transactions for 41 employees and 2 salary cost transfers, we received insufficient documentation for 7 payroll transactions charged to oil spill projects. For example, one employee's salary costs had initially been charged to non-oil spill projects but were later transferred to oil spill projects; however, the line office did not provide the supporting documentation we requested to account for the transfer. Additionally, of the 47 non-payroll related transactions examined, insufficient documentation was received for one travel and one contract cost.
4. ***Incomplete Roster of Employees Deployed to the Gulf.*** Our review of travel records found that while deployed to the Gulf, 13 of the approximately 100 deployed employees were not included on NOAA's master roster of employees.

Failure to properly track employee activities can have negative results that may adversely affect NOAA's mission in the Gulf. Because costs are reimbursed according to the activity being performed, if NOAA does not ensure that employee activity logs provide sufficient detail or that log data reconcile with timekeeping records, costs may not be reimbursed properly. Further, monitoring employees' hours and maintaining an accurate list of personnel are critical to ensuring safety and morale, as well as successfully and efficiently completing response and assessment activities.

Recommendation

We recognize that NOAA will continue to provide significant expertise in the months and years ahead to assess the oil spill's impact on our ecosystem and to begin restoration of damaged natural resources. Therefore, we recommend that NOAA ensure that oil spill activities are charged to the appropriate project, costs are accurately recorded in the accounting system, and documentation supporting all activities and costs is complete and accurate.

We appreciate the assistance provided by NOAA staff during our survey. If you have any questions or would like to discuss our observations, please contact me at (202) 482-2754, or Terry Storms at (202) 482-0055.

Attachment

cc: Maureen E. Wylie, Chief Financial Officer, NOAA
Scott B. Quehl, Chief Financial Officer and Assistant Secretary for Administration

Attachment—Summary of Funding Sources as of September 30, 2010

Type of Activity	Description	Obligations (in millions)	Funding Source & Process Summary
Reimbursable Response Activities	Pollution Removal Funding Authorization (PRFA) Agreements with the United States Coast Guard (USCG), which authorize reimbursement of certain removal costs incurred in response to an oil spill. For costs to be reimbursed, they must be for activities that are approved in advance by the USCG Federal On-Scene Coordinator (FOSC).	\$35.8	<i>Oil Spill Liability Trust Fund</i> – Upon completion of the activities approved in a PRFA agreement, NOAA compiles documentation with detailed records of expenditures and activities for which reimbursement is sought and submits it along with an invoice to the FOSC. The FOSC attests that agreed upon goods and services were authorized and provided, and forwards it to the USCG's National Pollution Funds Center for payment processing. Electronic payment is made to NOAA via the Intra-Governmental Payment and Collection System.
Reimbursable Assessment and Restoration Activities	Natural Resource Damage Assessment (NRDA) includes: <ul style="list-style-type: none"> • Pre-assessment activities – natural resource trustees assess injuries and determine if they can and should perform restoration planning; • Restoration Planning – trustees evaluate injuries and determine activities needed to restore damaged resources; • Restoration Implementation – implementing the plans and monitoring post-implementation progress 	\$57.7	<i>Responsible Party or Parties</i> — Periodically, NOAA compiles documentation with detailed records of expenditures and activities for which reimbursement is sought. This documentation is reviewed by an independent public accounting firm and by NOAA's General Counsel for Natural Resources. The documentation, along with a request and instructions for payment, is forwarded to the responsible party's or parties' counsel. If approved, payment is made in accordance with the instructions.
Non-Reimbursable Response and Support Activities	These activities are necessary to support the overall oil spill effort. However, they are not reimbursable under the PRFA and not considered NRDA activities.	\$37.9	<i>Appropriations</i> — \$27.4 million of these obligations were funded by the Supplemental Appropriations Act of 2010. Remaining \$10.5 million of obligations were funded by NOAA's annual appropriations.

(OAE-19901)